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DoD PROPOSES NEW FORMULA for FUTURE PAY RAISES

PROPOSED PAY FORMULA WILL REDUCE INQUITIES, SAVE MONEY

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The purpose of House of Representatives Bill 15406 is to change existing law specifying the method for allocating matching pay increases for the Uniformed Services. The need for such legislative change was expressed in the President's budget during each of the last two years. H.R. 15406 would carry out the President's recommendation.

History of the Current Law

The current law, section 8, Public Law 90-207, specifying the methodology for military pay raises, was enacted in 1967. At that time, military pay was generally acknowledged to be below that paid by employers who competed for military-eligible manpower. This pay disparity was especially true for junior enlisted personnel.

The 1967 law required that Service personnel would receive a pay increase whenever Federal classified employees received one. This tied military increases to civilian increases and eliminated the feelings of inequity that previously existed whenever one group received a pay raise to the exclusion of the other.

Secondly, the 1967 law stated the military would receive their pay raise at the same time and in the same amount as the Federal classified raise, computed on the then established regular military compensation concept. Regular compensation, regular military compensation or RMC are synonymous and are defined in law as the sum of basic pay, basic allowance for subsistence, basic allowance for quarters, and the tax advantage which accrues because the two allowances are not subject to Federal income tax. Thirdly, it stated that the entire cash increase, while computed on the basis of regular military compensation, could only be put into basic pay. Since basic pay is about 75 percent of total regular military compensation (RMC), this meant that the percentage increase in basic pay would necessarily be larger than the percentage increase in regular military compensation.

The Department of Defense in its testimony supported this pay raise methodology because putting all of each raise into basic pay especially benefitted first term enlisted personnel who did not receive cash allowances, and because it offered the greatest long-term motivation to the career force in that it increased future retirement and survivors benefits. Agai it should be recognized that under the draft dependent environment o 1967 military pay was not generally competitive with the wages in the civilian sector, and an accelerated military pay increase mechanism wa desirable in that period.

As recently as 1971, the Congre in enacting Public Law 92-129, recog nized that RMC in general, and basic pay in particular, for junior enlisted and officer personnel was too low to meet the competition in the draft free environment. The accelerating increase effect on basic pay of sectio 8, Public Law 90-207, coupled with the quantum increase for junior personnel provided by Public Law 92-129 has achieved its desired impact on regular compensation and basic pay. Today, the Department o Defense believes that military pay is generally competitive with wages in the civilian sector, and that modifica tion of the matching increase mechanism is desirable to ensure cost effective implementation of future pay increases.

COMPARATIVE P

(O-3, 6 Years of service, 3 depend

	Cu
Basic Pay	
Basic allowance for quarters	
Basic allowance for subsistence	
Total Cash Pay	
(E-5, 4 Years of service, 2 de	
Basic Pay	
Basic Allowance for Quarters	
Basic Allowance for Subsistence	
Total	

[1] Pay and allowances as of January
[2] Under current law, military perso basic pay assuming a 6.2 percent Ge
[3] Under H.R. 15406, military pers basic pay, in basic allowance for qua suming a 6.2 percent General Schedu
[4] A 5 percent increase in the enlis crease is in addition to the 8.1 percent
* Receiving cash allowances.

H.R. 15406

Basically, H.R. 15406 will retain the current principle that military pay raises are linked to Federal civilian pay increases. What this bill will change is the method of allocating pay raises for military personnel. Instead of putting all of each military pay raise solely into basic pay, future pay increases would be allocated to all three cash elements of regular compensation: basic pay, the basic allowance for subsistence, and the basic allowance for quarters. Each of the three cash elements would be increased by the same percentage as the Federal civilian pay increase.

Reduce Inequities and Cost of the Current System

The result of the proposed change will be that it would reduce the apparent inequities in the current system and it will reduce future pay cost increases. It reduces cost increases three ways. First, it reduces costs by reducing the amount of future basic pay increases compared with the amount of future increases under the present system. This concurrently reduces the size of future increases in those other entitlements which are paid as a function of basic pay, or in other words, use basic pay as the basis of their computation. Some of the largest of these other items are retirement pay, Reserve and Guard drill pay, and the government's contribution to social security.

The second way in which costs are reduced is that future increases in the two basic allowances will be incorporated into the matching pay raise system. As you know, an upward or downward adjustment in the subsistence allowance for enlisted personnel occurs every year. When increases occur, they occur in addition to the annual matching increase in basic pay. Quarters allowances presently are set by law, and when adjusted by the Congress, are increased in addition to the matching pay raises. Incorporating these increases within the framework of the comparability process should reduce or eliminate the necessity of adjusting these elements of compensation outside the matching pay increase process.

Under the current system of pays and allowances the increases in the allowances are necessary. They are necessary in order to maintain the allowances at a reasonable relationship to the expenses they are supposed to defray. For example, since the rates for the quarters allowances have not been increased since November, 1971, they are significantly lower than the median housing expenses reported by the Federal Housing Authority. Thus, this particular allowance is losing credibility in terms of its intended purposes. We realize that a portion of the past increases in basic pay was due to increases in the cost of housing, but it is still difficult to convince Service personnel that their housing allowances should not be increased, even though it may be implied that they have received a housing-related increase in their basic pay. So long as we maintain a system of pays and allowances, we are convinced that the allowances must maintain a level of reasonable relationship with increased costs in the economy. H.R. 15406 would do this, and at a more economical cost. As a result, this action should also eliminate the criticism that the current system is inequitable because increases in the basic allowances, in addition to the annual comparability pay increases, distort the military—civilian equiv-

Air Force Technical Sergeant Richard Weatherby and his wife, Susan, inspect the kitchen of their base housing at George Air Force Base, California. Under H.R. Bill 15406, Sergeant Weatherby would receive a 6.2 percent increase in both his base pay and his subsistence allowance but not in his quarters allowance since he resides in Government furnished housing.

PAYS AND ALLOWANCES

ndents) *

Current Status [1]	Present Law [2]	H. R. 15406 [3]
$1,100.40	$1,189.50	$1,168.50
195.60	195.60	207.60
47.88	47.88	50.85
$1,343.88	$1,432.98	$1,426.95
dependents)*		
$486.30	$525.60	$516.60
138.60	138.60	147.30
69.35	72.69 [4]	73.60
$694.25	$736.89	$737.50

ry 1, 1974.
ersonnel would receive an 8.1 percent increase in General Schedule salary increase.
ersonnel would receive a 6.2 percent increase in uarters, and in basic allowance for subsistence as- dule salary increase.
listed commuted ration rate is assumed. This in- nt matching increase in basic pay.

Capsule Version of New Pay Formula

In brief, the proposed House of Representatives Bill 15406, which incorporates the new pay formula, would:

- **Retain the current principle that military pay raises are linked in time and amount to Federal civilian employee pay raises;**
- **Allocate cash increases to all three cash elements of military pay instead of putting all of each pay raise solely into basic pay;**
- **Maintain a more credible relationship between the basic allowances and increased costs in the economy which they are intended to defray;**
- **Provide a pay formula that is simpler to understand and more easily computed by all personnel;**
- **Achieve equity between the military-civilian pay raise systems; and**
- **Reduce the budgetary costs of future pay raises (by $160 million in FY 75).**

Hearings on this bill were held by the House Armed Services Committee on June 6, 1974. In addition to DoD support, this legislation is favored by the Office of Management and Budget, the Government Accounting Office and the Brookings Institute.

alent pay increase principle.

The third way in which the proposed legislation will save money is related to the second. The proposed legislation will discard the concept of regular military compensation for pay increase purposes. In part, this means that individuals who are furnished quarters and subsistence by the government, will no longer receive in their matching increase in basic pay an additional amount which is partly based on increases in food and housing costs: costs which these individuals do not have to meet. Thus, under H.R. 15406, assuming a 6.2 percent increase for General Schedule employees next October, a recruit living in the barracks and eating in a government dining hall would receive a $20.10 a month, or a 6.2 percent increases in basic pay, whereas under the current law the recruit would have received a $26.40, or 8.1 percent increase in basic pay. A typical enlisted member in pay grade E-5 with dependents who is furnished quarters by the government but who receives subsistence in cash would receive a 6.2 percent or $30.30 a month increase in basic pay, and a $4.25 a month or 6.2 percent increase in his subsistence allowance compared with an 8.1 percent or $39.30 per month increase in basic pay under the present system.

As a third example, a typical enlisted member in pay grade E-7 with dependents who resides in the civilian community would receive a 6.2 percent increase in all three cash elements, i.e., $48.60 in basic pay, $9.90 in quarters allowance, and $4.26 in subsistence for a total monthly increase of $62.76. Under the present system, he would have received an 8.1 percent or $63.60 a month increase in basic pay. It can be seen that the greatest effect of the proposed change is on the cash pay increases of Service personnel whose quarters and subsistence are furnished by the government.

Summary of H.R. 15406

H.R. 15406 is an equitable modification of Public Law 90-207. It changes only the current method of allocating the pay raises initiated by Federal classified pay raises. Increasing the two basic allowances by the same percentage as the Federal civilian increase instead of adding their proportion of a pay raise to the increase in basic pay will:

- Reduce the size of basic pay increases,
- Cause the allowances to increase more in line with costs, and therefore maintain a more reasonable relationship to the expenses they were enacted to defray—this is particularly true for the basic allowance for quarters, and,
- Bring these two allowances into the matching increase mechanism. Because the two allowances would be increased by the civilian percentage, future basic pay increases will be reduced to the same percentage.

H.R. 15406 will also be simpler to understand than the current system, and it should reduce inequities in the present pay raise system.

The cost of future pay raises will be significantly less. During the first fiscal year of operation, savings should be about $160 million with continuing savings in future years. These savings are generated for the reasons previously described. Also, as stated previously, much of the savings will be generated by no longer giving that part of the raise attributed to food and housing to those individuals who receive their subsistence and housing from the government, and by bringing subsistence increases under the matching increase umbrella. The remainder of the savings result from the reductions in basic pay increases and in the other entitlements associated with this reduction.

The Department of Defense believes that, on balance, the change that would be effected by enactment of H.R. 15406 is justified under the rationale of maintaining allowance credibility and of achieving equity between the military and Federal classified pay raise systems.

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